

EDITORIAL: THE FUTURE OF LOCAL GOVERNMENT

John Meadowcroft

Local government has never been less autonomous and less powerful than it is today. Councils now receive 75% of their revenue finances from central government and their role is largely determined by Westminster. As a consequence, Britain is now one of the most centralised states in the world.

The emasculation of local government should be a matter of concern because it is only when multiple local authorities provide diverse bundles of services that people can choose which bundle most closely fits their own preferences and we can discover which service regimes are most appropriate to different localities. Also, local autonomy, rather than central direction, makes possible the pluralism essential to a free society. Although genuine empowerment requires the devolution of decisions to the level of individuals and families, where this is not possible it is preferable that decisions are taken by local government rather than central government.

This normative case for local government is developed in the first article in this special edition of *Economic Affairs* on the future of local government. Peter Watt of the Institute of Local Government Studies at the University of Birmingham presents the case for local government (and government more generally) from first principles. Watt shows that government is usually justified as a means of providing common defence, overcoming market failures, providing merit goods and as a means of redistributing resources. Local government can have a role in all these functions except national defence, but its role is most clearly justified in the provision of local public goods.

The provision of local public goods is central to the role of local authorities, yet, as IEA authors have described over many decades, local government has often been an inefficient provider of government services. In the second article in this special edition, Stephen J. Bailey of Glasgow Caledonian University sets out the most recent developments in achieving efficient service delivery in local government. These developments involve a move from one-size-fits-all/take-it-or-leave-it services traditionally provided by government to services tailored to the needs and preferences of individual consumers, similar to those supplied by commercial markets. This change may be termed 'the personalisation of services'. While the empowerment

of consumers and the extension of popular choice implied by the personalisation of local service provision offers the prospect of important efficiency gains, Bailey shows that the institutional framework of local government – and in particular the pervasive financial and statutory controls imposed by central government – is likely to lead to different outcomes to those that might be anticipated in a genuine market context.

The ability of central government to impose its will on local councils has been felt particularly keenly in the corridors of town halls as the Blair government has forced its 'modernisation' agenda on local government. In the third article, Nirmala Rao of Goldsmiths College, University of London, set out how, as part of New Labour's agenda of 'democratic renewal', local authorities have been required to hold referenda on the adoption of directly-elected mayors and to adopt new forms of political executive and scrutiny committees. The latter have dramatically changed the traditional role of councillors. Rao argues that the modernisation programme has successfully reformed local government where previous attempts have failed, but whether the long-term goals of the reform have been realised remains open to question.

The final three articles in this special edition address questions of local government finance. Despite the decline of local government autonomy, the funding of local authorities remains popularly and politically controversial: there has not been a large-scale popular protest against the existence or level of Income Tax or VAT in living memory, yet the present and previous local government-funding regimes – the Council Tax and the Poll Tax – have both generated widespread public opposition that has led to street demonstrations and non-payment campaigns.

The first of the final three articles examines the failure of the Poll Tax from the perspective of classical liberal political economy. It is argued that the failure of this previous attempt to reform local government finance is not indicative of any inherent pathology of the principles that underpinned key aspects of the reform, but rather was perfectly predictable from a classical liberal perspective. The article shows that understanding why the Poll Tax failed provides important lessons for the future of local government finance.

In the next article Douglas Carswell MP argues that the Council Tax should be abolished and to take its place VAT should be transformed into a Local Sales Tax. Carswell argues that such a local finance regime would be more transparent and fairer than alternative proposals. A Local Sales Tax would also empower local authorities by making councils more accountable to their populations and would create a virtuous circle of competition in taxes and services – local councils that set the sales tax too high would see firms and individuals shop elsewhere, while those that set the rate too low would raise insufficient revenue. It can be seen that a Local Sales Tax would achieve many of the positive goals of the Poll Tax without repeating its fatal errors.

The final article examines the financing of public sector infrastructure projects via the Private Finance Initiative (PFI) and the more general Public Private Partnerships (PPP). Rob Ball and David

King of Stirling University trace the growth of the PFI since 1992 and consider its implications for the public finances. It is shown that the PFI has achieved some successes, but doubts remain as to the value for money achieved for local taxpayers and the extent to which the risk involved in such projects can and should be transferred from the public sector to private contractors.

The history of local government over the past two hundred years has seen the gradual erosion of its autonomy as a result of the actions of central governments run by all political parties. The articles in this special edition of *Economic Affairs* suggest that important and difficult challenges lie ahead, but if the political will can be found the future of local government may be bright.

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